

Performance Audit Conducted on Behalf of the

# Federal Communications Commission

## Office of the Inspector General



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PERFORMANCE AUDIT FOR THE UNIVERSAL SERVICE E-RATE  
SCHOOLS AND LIBRARIES PROGRAM DISBURSEMENTS RELATED  
TO FUNDING YEAR 2015

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## CENTRALIA CITY SCHOOL DISTRICT 135

Beneficiary ID: 136707

Prepared for: **Federal Communications Commission**  
Office of the Inspector General  
OIG Report No. 19-AUD-02-02

As of Date: October 14, 2020



8350 Broad Street #900  
McLean, VA 22102

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## EXECUTIVE SUMMARY

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October 14, 2020

Mr. David Hunt  
Inspector General  
Federal Communications Commission  
Office of Inspector General  
445 12<sup>th</sup> Street SW  
Washington, DC 20554

Dear Mr. Hunt:

This report presents the results of our work conducted to address the performance audit objectives relative to Centralia City School District 135, Billed Entity Number (“BEN”) 136707, (“Centralia” or “Beneficiary”) for disbursements of \$150,970 made from the Universal Service Fund on behalf of the E-rate program related to the twelve-month period ended June 30, 2016, (hereinafter “Funding Year 2015”). Our work was performed during the period from February 14, 2019 to October 14, 2020, and our results are as of October 14, 2020.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (“GAGAS”). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants (“AICPA”). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The objectives of the audit were to (1) determine if the E-Rate beneficiary complied with 47 C.F.R. Sections 54.500 to 54.523 for schools and libraries and all applicable orders<sup>1</sup> issued under Section 254 of the Communications Act of 1934, as amended; and (2) determine and report on potential instances of fraud, waste and/or abuse. We evaluated the Beneficiary’s compliance with the applicable FCC Rules<sup>2</sup> that resulted in disbursements of \$150,970 made from the E-rate program related to Funding Year 2015. Compliance with the Rules is the responsibility of the

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<sup>1</sup> The applicable orders include: First Report and Order (FCC 97-157), Second Report and Order (FCC 03-101), Third Report and order (FCC 03-323), Fifth Report and Order (FCC 04-190), Sixth Report and Order (FCC 10-175), Children’s Internet Protection Act Report and Order (FCC 11-125), Queen of Peace Order (DA 11-1991), Modernization Order (FCC 14-99) and Second Modernization Order (FCC 14-189).

<sup>2</sup> The requirements, regulations and orders governing the federal Universal Service Schools and Libraries program (“E-rate” program) are set forth in 47 C.F.R. Part 54 of the Federal Communications Commission’s (“FCC”) Rules as well as other program requirements (collectively, the “Rules”).

Beneficiary's management. Our responsibility is to evaluate the Beneficiary's compliance with the Rules based on our audit.

As a result of the procedures performed, KPMG identified two findings and one other matter, as described in the Performance Audit Highlights section. Based on these results, we estimate that Funding Year 2015 E-rate program disbursements made to the Beneficiary were \$5,060 higher than they would have been had the disbursements been reported properly.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report is intended solely for the use of the FCC, the Beneficiary, and the Universal Service Administrative Company, and is not intended to be and should not be relied upon by anyone other than these specified parties.

Sincerely,

KPMG LLP

## **PERFORMANCE AUDIT HIGHLIGHTS**

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The Federal Communications Commission (“FCC”) Office of Inspector General (“OIG”) conducts independent and objective audits, investigations, and other reviews to ensure the Schools and Libraries program (commonly known as the “E-rate” program) is in compliance with the financial and administrative terms and conditions of the regulations set forth in 47 C.F.R. Part 54 of the FCC Rules. The FCC OIG contracted with KPMG LLP (“KPMG”) to conduct this independent performance audit.

### **What Was Audited?**

On behalf of the OIG, we conducted a performance audit of Centralia City School District 135 (“Beneficiary”), an E-rate program beneficiary for Funding Year 2015 (July 1, 2015 through June 30, 2016). Our objectives were to (1) determine if the E-Rate beneficiary complied with 47 C.F.R. Sections 54.500 to 54.523 for schools and libraries and all applicable orders issued under Section 254 of the Communications Act of 1934, as amended; and (2) determine and report on potential instances of fraud, waste and/or abuse.

The scope of our performance audit included, but was not limited to, the application process, competitive bidding process, calculation of the discount percentage, invoicing process, effective use of services and equipment, reimbursement process and record keeping.

### **What Was Found?**

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Part 54 identified two findings and one other matter.

Findings:

1. The Beneficiary performed an unallowable transfer of equipment
2. The Beneficiary did not maintain complete and accurate asset and inventory records

Other Matter:

The Beneficiary failed to comply with state and local competitive bidding requirements for awarding contracts. The Beneficiary did not comply with their local procurement policy requiring School Board approval of contracts exceeding \$5,000 in value prior to award.

Overall, we determined that disbursements in the amount of \$5,060 made to the Beneficiary, related to Funding Year 2015, were non-compliant with the E-rate rules, regulations, and procedures.

Detailed audit results are described in the Findings, Recommendations and Other Matter section below.

### **What Is Recommended?**

KPMG recommends that:

1. The Beneficiary should develop a formal policy and implement a process with the appropriate controls to ensure equipment procured with E-rate program funds are utilized at the location requested, per the corresponding FCC Form 471, for a minimum of three years.

If a school is permanently or temporarily closed, the Beneficiary should file an FCC Form 500 to notify and obtain approval from USAC for an equipment transfer.

2. USAC seek recovery of Universal Service Funds in the amount of \$5,060 from the Beneficiary.
3. The Beneficiary develop a policy, process, and related controls to ensure complete and accurate physical asset and inventory records are maintained. The policy, process, and controls should be designed to ensure that documentation maintained to track category two equipment procured with E-rate program funds is complete, accurate, and retained for a period of ten years after purchase.

Additionally, regarding the other matter noted, the Beneficiary should fully abide by its procurement policy that contracts exceeding \$5,000 in value be approved by the School Board prior to contract execution.

## **BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES**

### **Background**

The Federal Communications Commission (“FCC”) was established by the Communications Act of 1934 as an independent U.S. government agency and is directly responsible to Congress. The FCC regulates interstate (between states) and international communications by radio, television, wire, satellite and cable in all 50 states, the District of Columbia and U.S. territories.

The Communications Act of 1934 mandated that all people in the United States shall have access to universal service, defined as rapid, efficient, nationwide communications with adequate facilities at reasonable charges. Subsequently, the Telecommunications Act of 1996 expanded the traditional definition of universal service to include affordable, nationwide telephone service to include rural health care providers and eligible schools and libraries. Today, the FCC provides universal service support, at a cost of almost \$8.2 billion annually, through four programs – Schools and Libraries, High Cost, Lifeline and Rural Health Care.

### **Program Overview**

The Schools and Libraries universal service support program, commonly known as the “E-rate” program, provides funding for schools and libraries to obtain affordable telecommunications equipment and/or services and internet access/broadband. Annual funding for the E-rate program is based on demand, up to an FCC established annual cap of \$3.9 billion. Funding for a school or library may be requested under two categories of eligible services, category one services (telecommunications, telecommunications services and Internet access), and category two services (internal connections, basic maintenance of internal connections, and managed internal broadband services). The dollar amount of E-rate support a school or library receives is based on poverty program eligibility criteria. The amount is calculated based on the percentage of students within the school district eligible for the National School Lunch Program (“NSLP”) and whether the school or library is located in an urban or rural area. The school or library’s E-rate discount ranges from 20 to 90 percent of the cost of eligible services.

The E-rate program is administered by the Universal Service Administrative Company (“USAC”) under the direction of the FCC. Specifically, USAC is responsible for ensuring applicant compliance with program rules, processing program applications, confirming program eligibility and providing reimbursements to program participants. The FCC OIG contracted with KPMG to conduct a performance audit of the Centralia City School District’s E-rate program compliance with applicable requirements of 47 C.F.R. Part 54 of the FCC’s Rules, as well as FCC Orders governing the E-rate program during Funding Year 2015.

Beneficiary Overview

Centralia City School District 135 (“Beneficiary”, BEN# 136707), is a school district located in Centralia, IL that serves over 1,300 students.

The following table illustrates the amount committed<sup>3</sup> and disbursed by USAC to the E-rate program Beneficiary for Funding Year 2015 by service type:

*Source: USAC*

Service Type	Amount Committed	Amount Disbursed
Internet Access	\$50,209	\$40,469
Voice/Telecomm Services	\$75,314	\$57,072
Internal Connections	\$53,586	\$53,429
<b>Total</b>	<b>\$179,109</b>	<b>\$150,970</b>

Note: The amounts committed reflect the maximum amounts to be funded, as determined by USAC, by FRN and service type, for Funding Year 2015.

The committed total represents two FCC Form 471<sup>4</sup> applications with nineteen Funding Request Numbers (“FRN”)<sup>5</sup>. We audited all nineteen FRNs with commitments totaling \$179,109 and disbursements of \$150,970.

**Objectives**

The objectives of this audit were to (1) determine if the E-rate beneficiary complied with 47 C.F.R. Sections 54.500 to 54.523 for schools and libraries and all applicable orders issued under Section 254 of the Communications Act of 1934, as amended (related orders can be found on the USAC website at <http://www.usac.org/about/tools/fcc>); and (2) determine and report on potential instances of fraud, waste and/or abuse. We audited disbursements of \$150,970 made to the Beneficiary from the Universal Service Fund (“USF”) for Funding Year 2015.

See the Scope section below for a discussion of the applicable requirements of 47 C.F.R. Part 54 of the FCC’s Rules that are covered by this performance audit.

<sup>3</sup> Amount committed represents USAC’s funding decision on an applicant’s E-rate funding request.

<sup>4</sup> FCC Form 471: The *Services Ordered and Certification Form* is an FCC form used to report services ordered and discounts requested for those services.

<sup>5</sup> Funding Request Number (“FRN”): A unique number that USAC assigns to each funding request in an FCC Form 471.

## Scope

The scope of this performance audit includes, but is not limited to, the Beneficiary's compliance with the Rules to be eligible for the committed and disbursed amounts related to Funding Year 2015. Specifically, KPMG reviewed the following areas for compliance with E-rate laws, rules and regulations:

1. Application Process
2. Competitive Bidding Process
3. Calculation of the Discount Percentage
4. Invoicing Process
5. Effective Use of Services and Equipment
6. Reimbursement Process
7. Record Keeping

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Procedures

The performance audit includes procedures related to the E-rate program for which funds were committed and received by to the Beneficiary for Funding Year 2015. Performance audit procedures completed include the following (refer to Appendix D for additional details):

### **1. Application Process:**

- a) Gained an understanding of the Beneficiary's E-rate program application process and use of funds.
- b) Reviewed evidence to support the Beneficiary's compliance with Children's Internet Protection Act ("CIPA")<sup>6</sup> requirements.

### **2. Competitive Bidding Process:**

- a) Examined documentation to determine if all bids received were properly evaluated and that the price of eligible services was the primary factor considered when selecting a Service Provider.

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<sup>6</sup> Children's Internet Protection Act (CIPA): A law that mandates certain internet safety policy and filtering requirements for recipients of E-rate program discounts.

b) Examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470<sup>7</sup> was posted on USAC's website before signing contracts with the selected service providers.

c) Reviewed service provider contracts to determine if they were properly executed.

**3. Discount Calculation Process:**

a) Examined and recalculated the discount percentage for accuracy using the source data provided by the Beneficiary.

**4. Invoicing Process:**

a) Examined invoices to determine if equipment and services per service provider bills were consistent with the terms and specifications of the contracting documents.

b) Examined documentation to determine if the Beneficiary paid its non-discounted share in a timely manner.

**5. Effective Use of Services and Equipment:**

a) Performed a physical inventory to evaluate the location and appropriate utilization of equipment and services in accordance with the Rules.

b) Observed and determined if the E-rate funded equipment and services were operational and being effectively used for their intended purposes.

**6. Reimbursement Process:**

a) Examined invoices submitted for reimbursement.

b) Verified that services and equipment claimed on invoices and corresponding service provider bills complied with the requirements of the E-rate program Eligible Services List<sup>8</sup>.

**7. Record Keeping:**

a) Determined if the Beneficiary's record retention policies and procedures are consistent with the E-rate program rules.

b) Utilized alternative procedures to verify the existence of the equipment through the following sources:

(1) Service Provider's system records

(2) Vendor warranty repair documentation

(3) A reconciliation of equipment on the fixed asset listing, the FCC Form 471, and the Service Provider bills.

Alternative procedures were performed to support results noted in Finding No. 2, below.

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<sup>7</sup> FCC Form 470: The *Description of Services Requested and Certification Form* is an FCC form schools and libraries use to request services and establish eligibility.

<sup>8</sup> See glossary in Appendix C for additional information. The Funding Year 2015 Eligible Services List can be found at [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DA-14-1556A1.pdf](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DA-14-1556A1.pdf).

## RESULTS

KPMG’s performance audit results include findings, recommendations, and an other matter, with respect to the Beneficiary’s compliance with FCC requirements. The audit results also include an estimate of the monetary impact of such findings relative to 47 C.F.R. Part 54 applicable to Funding Year 2015 commitments and disbursements made from the USF.

### Findings, Recommendations, and Other Matter

KPMG’s performance audit procedures identified two findings and one other matter.

Finding No. 1	<u>Unallowable Transfer of Equipment</u>
<b>Condition</b>	<p>The Beneficiary improperly transferred category two equipment purchased during Funding Year 2015. The Beneficiary received funding for one Local Area Network (LAN) controller and one wireless access point under FCC Form 471 No. 1017958 for use at Centralia Junior High School (Entity No. 73289). The equipment was in use at Lincoln Elementary School (Entity No. 73283) at the time of the audit site visit.</p> <p>Per the Beneficiary, the equipment was installed in October 2015 at Centralia Junior High School. Both pieces of equipment were replaced by new equipment in May 2018. School officials stated that the E-rate funded equipment was moved at that time to Lincoln Elementary School, an E-rate eligible entity, to satisfy what they reported as an existing need. However, Centralia Junior High School was not permanently or temporarily closed. The transfer should not have occurred within three years of the original purchase and installation of the equipment since the original school was not permanently or temporarily closed.</p>
<b>Criteria</b>	<p>Per 47 C.F.R. Section 54.513(d) (2014), “Eligible services and equipment components of eligible services purchased at a discount under this subpart shall not be transferred, with or without consideration of money or any other thing of value, for a period of three years after purchase, except that eligible services and equipment components of eligible services may be transferred to another eligible school or library in the event that the particular location where the service originally was received is permanently or temporarily closed. If an eligible service or equipment component of a service is transferred due to the permanent or temporary closure of a school or library, the transferor must notify the Administrator of the transfer, and both the transferor and recipient must maintain detailed records documenting the transfer and the reason for the transfer for a period of five years.”</p>
<b>Cause</b>	<p>The Beneficiary lacked a formalized policy, process and related controls to ensure equipment procured with E-rate program funds are utilized at the approved location, per the corresponding FCC Form 471, for a minimum of</p>

	three years. Centralia City School District 135 did not review the timing of the transfer to ensure equipment procured with E-rate funds remained at the requested location for a period of three years following acquisition.																				
<b>Effect</b>	<p>The monetary effect for this finding is \$5,060 under FRN 2762985 (calculated as the undiscounted cost of the LAN controller and one wireless access point, \$5,952, multiplied by the Beneficiary’s calculated discount rate of 85 percent).</p> <table border="1"> <thead> <tr> <th></th> <th>(A)</th> <th>(B)</th> <th></th> </tr> <tr> <th>Category Two Equipment</th> <th>Undiscounted Cost</th> <th>Discount Rate</th> <th>Monetary Effect of Audit Results (Column A*B)</th> </tr> </thead> <tbody> <tr> <td>1 LAN Controller</td> <td>\$5,463</td> <td>85%</td> <td>\$4,644</td> </tr> <tr> <td>1 Wireless Access Point</td> <td>\$489</td> <td>85%</td> <td>\$416</td> </tr> <tr> <td><b>Total Impact</b></td> <td><b>\$5,952</b></td> <td></td> <td><b>\$5,060</b></td> </tr> </tbody> </table>		(A)	(B)		Category Two Equipment	Undiscounted Cost	Discount Rate	Monetary Effect of Audit Results (Column A*B)	1 LAN Controller	\$5,463	85%	\$4,644	1 Wireless Access Point	\$489	85%	\$416	<b>Total Impact</b>	<b>\$5,952</b>		<b>\$5,060</b>
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Category Two Equipment	Undiscounted Cost	Discount Rate	Monetary Effect of Audit Results (Column A*B)																		
1 LAN Controller	\$5,463	85%	\$4,644																		
1 Wireless Access Point	\$489	85%	\$416																		
<b>Total Impact</b>	<b>\$5,952</b>		<b>\$5,060</b>																		
<b>Recommendation</b>	<ol style="list-style-type: none"> <li>1. The Beneficiary should develop a formal policy and implement a process with the appropriate controls to ensure equipment procured with E-rate program funds are utilized at the approved location, per the corresponding FCC Form 471, for a minimum of three years. If a school is permanently or temporarily closed, the Beneficiary should file an FCC Form 500 to notify and obtain approval from USAC for an equipment transfer.</li> <li>2. Also, KPMG recommends that USAC seek recovery of Universal Service Funds in the amount of \$5,060 from the beneficiary.</li> </ol>																				
<b>Beneficiary Response</b>	Centralia City School District agreed with the finding and recommendations. The Beneficiary’s full response is included in Appendix A of the report.																				
<b>USAC’s Management Response</b>	USAC management concurs with the finding and recommendation. USAC will seek recovery in the amount of \$5,060. The full response is included in Appendix B of the report.																				

<b>Finding No. 2</b>	<b><u>Beneficiary Did Not Maintain Complete and Accurate Asset and Inventory Records</u></b>
<b>Condition</b>	The Beneficiary did not maintain complete and accurate physical asset and inventory records for supported category two equipment procured with E-rate program funds during Funding Year 2015. Auditors noted the following conditions:

	<p>(1) The Beneficiary purchased a Cisco router; however, the router was not recorded on its fixed asset listing. The equipment was identified through review of the corresponding FCC Form 471 and Service Provider bills. Existence of the equipment was verified during the audit site visit.</p> <p>(2) The Beneficiary did not retain vendor documentation that contained serial numbers of the category two equipment procured under FCC Form 471 No. 1017958. The auditor utilized alternative procedures to verify the existence of the equipment through the following sources:</p> <ul style="list-style-type: none"> <li>(a) Service Provider’s system records</li> <li>(b) Vendor warranty repair documentation</li> <li>(c) A reconciliation of equipment on the fixed asset listing, the FCC Form 471, and the Service Provider bill.</li> </ul> <p>KPMG physically verified the existence of all equipment at the eligible entities listed on the FCC Form 471.</p>
<b>Criteria</b>	<p>Per 47 C.F.R. Section 54.516(a)(1) (2014), “Recordkeeping requirements—(1) Schools, libraries, and consortia. Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the application for, receipt, and delivery of supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.”</p>
<b>Cause</b>	<p>The Beneficiary lacked a formal policy, process and related controls to ensure E-Rate funded equipment were tracked within a consolidated fixed asset listing. The Beneficiary stated they did not realize documentation should be maintained to uniquely track and identify E-rate funded equipment.</p>
<b>Effect</b>	<p>There is no monetary impact. The auditor was able to verify the existence of the equipment and that the equipment was in use for its intended purpose as requested per FCC Form 471 No. 1017958. The lack of a control to verify complete and accurate physical asset records are maintained may prevent the School District from complying with E-rate program rules and regulations. Additionally, the lack of controls increases the risk of the equipment being lost or stolen.</p>

<b>Recommendation</b>	KPMG recommends that the Beneficiary develop a policy, process, and related controls to ensure complete and accurate physical asset and inventory records are maintained. The policy, process, and controls should be designed to ensure that documentation maintained to track category two equipment procured with E-rate program funds is complete, accurate, and retained for a period of ten years after purchase.
<b>Beneficiary Response</b>	Centralia City School District agreed with the finding and recommendations. The Beneficiary’s full response is included in Appendix A of the report.
<b>USAC’s Management Response</b>	USAC management concurs with the finding and recommendation, and concurs that the Beneficiary should strengthen its internal controls by developing a policy and process to ensure that a complete and accurate Fixed Asset Listing is maintained to track category two equipment procured with E-rate program funds for a period of ten years after the latter of the last day of the applicable funding year or the service delivery deadline. The full response is included in Appendix B of the report.

**Other Matter**

KPMG’s performance audit procedures also identified one other reportable matter.

<b>Other Matter</b>	<b><u>Failure to Comply with State and Local Competitive Bidding Requirements</u></b>
<p>In Funding Year 2015, there were internal control weaknesses in the Beneficiary’s competitive bidding process for awarding contracts. The Beneficiary did not comply with their local procurement policy requiring School Board approval contracts exceeding \$5,000 in value prior to award. Upon Service Provider selection, contracts in excess of \$5,000 were executed by the Superintendent without prior approval of the School Board. The School Board only reviewed and approved Service Provider bills for payment after contracts were executed.</p> <p>There was no monetary impact as a result of this finding. Our review concluded that the Beneficiary conducted an open and fair competitive bidding process and selected the most cost-effective Service Provider in accordance with FCC rules for all FRNs in Funding Year 2015.</p> <p>However, failing to comply with School Board Policy increases the risks that the School District could potentially execute contracts that are not in compliance with state and local laws regarding procurement of services for which support is being sought.</p>	
<b>Beneficiary Response</b>	Centralia City School District agreed with the other matter. The Beneficiary’s full response is included in Appendix A of the report.
<b>USAC’s Management Response</b>	USAC management concurs with the other matter. The full response is included in Appendix B of the report.

## **Conclusion**

KPMG's evaluation of the Beneficiary's compliance with the applicable requirements of 47 C.F.R. Part 54 identified two findings and one other matter:

### Findings:

1. The Beneficiary performed an unallowable transfer of equipment
2. The Beneficiary did not maintain complete and accurate asset and inventory records

### Other Matter:

The Beneficiary failed to comply with state and local competitive bidding requirements for awarding contracts. The Beneficiary did not comply with their local procurement policy requiring School Board approval of contracts exceeding \$5,000 in value prior to award.

Overall, we determined that disbursements in the amount of \$5,060 made to the Beneficiary, related to Funding Year 2015, were non-compliant with the E-rate rules, regulations, and procedures.

Detailed information relative to the findings is described in the Findings, Recommendations and Other Matter section above.

### KPMG recommends that:

1. The Beneficiary should develop a formal policy and implement a process with the appropriate controls to ensure equipment procured with E-rate program funds are utilized at the location requested, per the corresponding FCC Form 471, for a minimum of three years. If a school is permanently or temporarily closed, the Beneficiary should file an FCC Form 500 to notify and obtain approval from USAC for an equipment transfer.
2. USAC seek recovery of Universal Service Funds in the amount of \$5,060 from the Beneficiary.
3. The Beneficiary develop a policy, process, and related controls to ensure complete and accurate physical asset and inventory records are maintained. The policy, process, and controls should be designed to ensure that documentation maintained to track category two equipment procured with E-rate program funds is complete, accurate, and retained for a period of ten years after purchase.

Additionally, regarding the other matter noted, the Beneficiary should fully abide by its procurement policy, which requires that contracts exceeding \$5,000 in value be approved by the School Board prior to contract execution.

## APPENDICES

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### Appendix A: Beneficiary Response

We appreciate the guidance from KPMG and USAC during the audit process. Having the audit onsite gave our district a great opportunity to show off how this funding is making a difference for our students! As a district we are very appreciative of E-rate funding and the connectivity it provides us. Especially from the perspective of a rural school district, E-rate funding makes a positive impact in Centralia!

The results of the audit were accurate and helpful to us. The finding will allow us to focus on areas that we can improve right away. We believe that the E-rate program is a lifeline for rural students to stay competitive as 21<sup>st</sup> century learners. To that end we look forward to improving efforts to be a model beneficiary of the program.

Thanks again to the KPMG team for your work on the audit and always being available to answer questions or give additional details. We also want to thank OIG for coming onsite and helping to oversee the process. We are always happy to show off how we are helping students in our district and are glad you got to see first-hand how this technology was put to work for our students!

Don Ford  
Director of Technology

## Appendix B: Management's Response

*Via Electronic Mail*

May 5, 2020

Mr. Robert McGriff  
Assistant Inspector General – Audits  
Office of Inspector General  
Federal Communications Commission  
445 12th Street, S.W.  
Washington, D.C. 20554

Re: Comments of the Universal Service Administrative Company to the Final Draft Funding Year 2015 Performance Audit of Centralia City School District 135 (Report No. 19-AUD-02-02)

Dear Mr. McGriff:

The Universal Service Administrative Company (USAC) is providing its response to the above-referenced draft report regarding a performance audit of Centralia City School District 135 (Beneficiary or Centralia), a Universal Service Fund (USF) Schools and Libraries (also known as "E-rate") program Beneficiary. The Federal Communications Commission (FCC) Office of Inspector General (OIG) conducted the performance audit to determine whether the Beneficiary complied with the Commission's rules and orders for the E-rate program and to review whether the Beneficiary's internal controls were adequate and effective. There were two findings and one other matter in the draft audit report. Specifically, the auditors determined that the Beneficiary: (1) improperly transferred category two equipment, (2) did not maintain complete and accurate physical asset and inventory records for category two equipment, and (3) did not comply with its local procurement policies.

USAC's management response to the two findings and other matter is below.

### **USAC Management Response to Finding One (Centralia Performed an Unallowable Transfer of Equipment)**

**Finding Details:** Centralia improperly transferred category two equipment purchased during Funding Year 2015 without waiting three years from the date of purchase. Centralia received funding for one Local Area Network (LAN) controller and one wireless access point under FCC Form 471 No. 1017958 for use at Centralia Junior High School (Entity No. 73289). The equipment was in use at Lincoln Elementary School (Entity No. 73283) at the time of the audit site visit.

USAC management concurs with the finding and recommendation. USAC will seek recovery in the amount of \$5,060. USAC will also request Centralia provide policies and procedures it has established to ensure it is compliant with FCC rules regarding equipment use and transfers.

**USAC Management Response to Finding Two (Centralia Did Not Maintain a Complete and Accurate Fixed Asset Listing)**

**Finding Details:** Centralia did not maintain complete and accurate physical asset and inventory records for supported category two equipment procured with E-rate program funds during Funding Year 2015.

USAC management concurs with the finding and recommendation, and concurs that the Beneficiary should strengthen its internal controls by developing a policy and process to ensure that a complete and accurate Fixed Asset Listing (FAL) is maintained to track category two equipment procured with E-rate program funds for a period of ten years after the latter of the last day of the applicable funding year or the service delivery deadline.

Although Centralia did not have a complete and accurate FAL in place at the time of the audit, the auditors were able to verify the existence of the equipment and that the equipment was in use for its intended purpose. However, the lack of a complete and accurate FAL demonstrates Centralia is not in compliance with E-rate program rules and increases the likelihood that category two equipment may be lost or stolen. USAC will request Centralia provide policies and procedures it has established to ensure complete and accurate physical asset records are maintained going forward.

**USAC Management Response to Other Matter (Centralia Failed to Comply With State and Local Competitive Bidding Requirements for Awarding Contracts)**

**Other Matter Details:** In Funding Year 2015, there were internal control weaknesses in Centralia's competitive bidding process for awarding contracts. Centralia did not comply with their local procurement policy requiring School Board approval for contracts exceeding \$5,000 in value prior to award.

USAC management concurs with the other matter. Although Centralia did not comply with its own local procurement policies, the auditors determined a fair and open competitive bidding process took place and the most cost-effective service offering was chosen. USAC will request Centralia provide policies and procedures it has established to ensure a formalized competitive bidding protocol is in place and that all local procurement policies are being followed going forward.

This concludes USAC Management's response to the two above-referenced findings and one other matter for the Centralia City School District 135 draft performance audit report. Please let us know if you have any questions or need further information.

Sincerely,

//s//

Craig Davis

Vice President of Schools and Libraries Division

## Appendix C: Glossary of Terms

Term	Definition
APPLICANT	The entity applying for universal service support. In the Schools and Libraries program the entity is a school, library, consortium, or other eligible entity that files program forms.
BENEFICIARY	The entity receiving universal service support. In the Schools and Libraries Program the entity is a school, library, consortium, or other eligible entity that files program forms.
BILLED ENTITY NUMBER (BEN)	A unique number assigned by USAC to each billed entity (school, library, or consortium) that pays for services.
BASIC MAINTENANCE OF INTERNAL CONNECTIONS (BMIC)	Type of category two service that covers the repair and upkeep of eligible internal connections.
CATEGORY ONE SERVICES	Services used to connect broadband or internet to eligible locations, or services that provide the basic conduit access to the internet. Data transmission services and Internet access, and voice services are category one services. Category one services includes broadband connectivity and basic conduit access to the internet. This does not include charges for content, equipment purchases, or other services beyond basic conduit access to the internet. This service type also covers lit or dark fiber and, in special circumstances, self-provisioning of dark fiber.
CATEGORY TWO SERVICES	Internal connections services needed to enable high-speed broadband connectivity and broadband internal connections components. Category two includes local area networks/wireless local area networks (LAN/ WLAN), internal connections components, basic maintenance of internal connections components, and managed internal broadband services.
CHILDREN'S INTERNET PROTECTION ACT (CIPA)	A law that mandates certain internet safety policy and filtering requirements for recipients of E-rate program discounts for services other than telecommunications services.
DISCOUNT PERCENTAGE	The discounts available to eligible schools and libraries shall range from 20 percent to 90 percent of the pre-discount price for all eligible services provided by eligible providers. The discounts available to a particular school, library, or consortium of only such entities shall be determined by indicators of poverty and high cost.
ELIGIBLE ENTITY	An entity that meets the requirements for eligibility to participate in the program.
ELIGIBLE SERVICES	Products and services that are eligible for universal service support.
ELIGIBLE SERVICES LIST	Annual list provided by FCC that contains a description of the products and services that will be eligible for discounts, along with additional information such as eligibility conditions for each category of service for each specified funding year
E-RATE PROGRAM	The common term used in place of the Schools and Libraries program. With E-rate standing for Educational Rate, the program provides discounts to schools and libraries for eligible products and services.
FCC FORM 470	The Description of Services Requested and Certification Form is an FCC form that schools and libraries complete to request services and establish eligibility.
FCC FORM 471	The Services Ordered and Certification Form is an FCC form that schools and libraries use to report services ordered and discounts requested for those services.
FCC FORM 472 (BEAR)	The Billed Entity Applicant Reimbursement Form is an FCC form that schools and libraries submit to USAC after paying for services, in full, to request reimbursement for the discount on those services.
FCC FORM 474 (SPI)	The Service Provider Invoice Form is an FCC form that service providers submit to request reimbursement for discounted eligible services already provided the schools or libraries on their customer bills.
FCC FORM 500	The Funding Commitment Adjustment Request Form is filed by schools and libraries to notify USAC of reductions to or cancellations of approved FRNs and/or changes to reported Service Start Dates or Contract Expiration Dates, to

Term	Definition
	request a service delivery extension for non-recurring services, or to notify USAC of an allowable equipment transfer.
FEDERAL COMMUNICATIONS COMMISSION (FCC)	U.S. Federal government agency charged with regulating interstate and international communications by radio, television, wire, satellite, and cable.
CODE OF FEDERAL REGULATIONS (C.F.R.)	Codification of the general and permanent rules published in the Federal Register by the executive departments and agencies of the Federal Government.
FUNDING COMMITMENT DECISION LETTER (FCDL)	Summarize the E-rate funds that have been committed and set aside for discounts that had been requested on eligible services.
FUNDING REQUEST NUMBER (FRN)	Number assigned to each request for funding made by applicants.
FUNDING YEAR 2015	The twelve-month period from July 1, 2015 to June 30, 2016 during which E-rate program support is provided (as of November 30, 2016).
FCC OFFICE OF INSPECTOR GENERAL (OIG)	Division of the FCC that investigates complaints or allegations of wrongdoing or misconduct by employees or contractors that involve or give rise to fraud, waste or abuse within the programs or operations of the FCC.
INTERNAL CONNECTIONS	A Category Two service type on the Eligible Services List. Internal Connections services are eligible products, such as routers, switches, hubs, and wiring. Eligible products are located at the applicant site and must be considered a necessity to transport information to classrooms or publicly accessible areas of a library.
SCHOOLS AND LIBRARIES PROGRAM (SLP)	Program that helps ensure that schools and libraries can obtain high-speed Internet access and telecommunications at affordable rates.
SERVICE PROVIDER INVOICE (SPI)	Form used by Service Providers to request reimbursement from USAC for the discount amount for eligible services and equipment provided to the applicant.
UNIVERSAL SERVICE ADMINISTRATIVE COMPANY (USAC)	An independent, not-for-profit corporation designated by the FCC as the administrator of universal service.
UNIVERSAL SERVICE FUND (USF)	System of telecommunications subsidies and fees managed by the FCC intended to promote universal access to telecommunications services in the United States.

## **Appendix D: Performance Audit Procedures**

The performance audit included procedures related to the E-rate program for which funds were committed and received by the Centralia City School District 135 (Beneficiary) for Funding Year 2015. The procedures conducted during this performance audit include the following:

### **1. Application Process:**

We obtained an understanding of the Beneficiary's processes relating to the application and use of E-rate program funds. Specifically, we examined documentation to support its effective use of funding. We also used inquiry to determine if any individual schools or entities related to the Beneficiary were receiving USAC funded services through separate FCC Forms 471 and FRNs.

We obtained and examined documentation to determine if the Beneficiary complied with the FCC's Children's Internet Protection Act ("CIPA") requirements. Specifically, we obtained and evaluated the Beneficiary's Internet Safety Policy, and obtained an understanding of the process by which the Beneficiary communicated and administered the policy.

### **2. Competitive Bidding Process**

We obtained and examined documentation to determine if all bids received were properly evaluated and that the price of eligible services was the primary factor considered. We also obtained and examined evidence that the Beneficiary waited the required 28 days from the date the FCC Form 470 was posted on USAC's website before signing contracts with the selected service providers. The purpose is to ensure a fair and open competitive bidding process for service providers. We reviewed the service provider contracts to determine if they were properly executed. We evaluated the services and equipment requested and purchased for cost effectiveness as well.

### **3. Discount Calculation Process**

We obtained and examined documentation to understand the methodology used by the Beneficiary to calculate the discount percentage. We also obtained and examined documentation supporting the discount percentage calculation and determined if the calculations were accurate.

### **4. Invoicing Process**

We obtained and examined invoices for which payment was disbursed by USAC to determine that the equipment and services claimed on the FCC Form 472 Billed Entity Applicant Reimbursements (BEARs), FCC Form 474 Service Provider Invoices (SPIs) and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements. We also examined documentation to determine if the Beneficiary paid its non-discounted share in a timely manner.

### **5. Effective Use of Services and Equipment**

We performed a physical inventory to evaluate the location and use of equipment and services to determine if it was delivered and installed, located in eligible facilities, and utilized in accordance with the Rules. We evaluated the equipment and services purchased by the Beneficiary to determine if funding was used in an effective manner. We also

observed and determined if the E-rate funded equipment and services were operational and being effectively used for their intended purposes.

## **6. Reimbursement Process**

We obtained and examined invoices submitted for reimbursement for the services delivered to the Beneficiary and performed procedures to determine if USAC was invoiced properly. Specifically, we reviewed invoices associated with the Service Provider Invoice (“SPI”)<sup>9</sup> and BEAR forms for services and equipment provided to the Beneficiary. We verified that the services and equipment claimed on the SPI and BEAR forms and corresponding service provider bills were consistent with the terms and specifications of the service provider agreements and eligible in accordance with the E-rate program Eligible Services List.

## **7. Record Keeping**

We determined if the Beneficiary’s record retention policies and procedures were consistent with the E-rate program rules. Specifically, we determined if the Beneficiary was able to provide the documentation requested in the audit notification, for the FRNs audited, as well as retained and provided the documentation requested for other audit procedures.

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<sup>9</sup> Service Provider Invoice (SPI): Form used by Service Providers to request reimbursement from USAC for the discount amount for eligible services and equipment provided to the applicant.